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UNIDO POLICIES

UNIDO programme for small- and medium-scale industries

Submitted by the Director-General

Summary

Pursuant to Board decision IDB.9/Dec.2, proposes a framework for placing UNIDO activities on small- and medium-scale industries on a programmatic basis within the programming exercise of the medium-term plan, 1992-1997.

CONTENTS

	Paragraphs	Page
Introduction	1 - 3	1
Chapter		
I. BACKGROUND	4 - 12	2
II. DEVELOPMENT OBJECTIVE OF THE PROGRAMME	13	2
III. PRIORITIES AND TARGET GROUPS OF THE PROGRAMME	14 - 16	2
IV. PROGRAMME OBJECTIVES, OUTPUTS AND ACTIVITIES	17	3
V. IMPLEMENTATION ARRANGEMENTS	18 - 19	7
VI. ACTION REQUIRED OF THE BOARD	20	7

Introduction

1. In the mandates given to the Director-General, the policy-making organs have repeatedly placed emphasis on small- and medium-scale industry* in the industrialization process of developing countries. In addition to decision IDB.9/Dec.2, which provided the basis for the present report, the policy-making organs have specifically included small- and medium-scale industries in other mandates, such as General Conference resolution GC.3/Res.21 on the medium-term plan, 1990-1995, and Programme and Budget Committee conclusion 92/10 on the draft medium-term plan, 1994-1999.

2. The Industrial Development Board, in decision IDB.5/Dec.45, requested the Director-General that in the strategy for the fourth United Nations development decade, UNIDO should especially strengthen and expand its activities in the fields of human resource development, establishment of small- and medium-scale industries, development and transfer of technology and promotion of investment. In line with the emphasis accorded small- and medium-scale industries by Member States, that field represents one of the five priority problem areas both in the medium-term plan, 1992-1997 (PBC.7/17), and in the draft medium-term plan, 1994-1999.

3. Commensurate with the emphasis placed by UNIDO policy-making organs on small- and medium-scale industries is the importance attached to that area elsewhere in the United Nations system. In particular, in its resolution 45/196, the United Nations General Assembly expressed the conviction that entrepreneurship should be encouraged at all levels and in all sectors for the setting up of industries and that there was a strong potential for the development of small- and medium-sized industries that could contribute to the expansion of both urban and rural employment

* The generic reference small- and medium-scale industries also covers micro and rural industries and the informal sector. It must also be borne in mind that such industries are at the centre of private sector development.

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opportunities and eradicate poverty. In the same resolution the General Assembly reaffirmed the role of UNIDO as the coordinating organ in the United Nations system having primary responsibility for promoting and accelerating industrial development and the transfer of industrial technology to developing countries.

I. BACKGROUND

4. Governments in developing countries face major challenges in their efforts to improve standards of living, combat poverty and increase absorption of their rapidly expanding labour forces. In reformulating their economic development strategies, many Governments now recognize that particular attention must be given to furthering small and medium industries as cornerstones of long-term social progress. Their flexibility, dynamic adaptation to changing market conditions, ability to respond to technological innovation and their contribution to employment and decentralization policies make them significant engines of economic growth.

5. Typically, the formal small- and medium-scale industries sector contributes a significant percentage of industrial output and absorbs on average well over 50 per cent of industrial employment. (The proportions would be much greater if "informal" industrial activities were included.) The great potential offered by such industries, especially in terms of building up a broader and more resilient base for industrialization, is a challenge in itself, since great difficulties have to be overcome in fostering and accelerating their development. In principle, their promotion should be pursued as an integrated component of macro-industrial policy that takes into account different branches of industry in a non-discriminatory fashion. The legal system, the mix of regulatory and promotional policies as well as the macro-economic adjustment policies introduced to offset occasional external imbalances have all to be reviewed carefully in terms of their positive or negative impact.

6. Prior to setting up new policy measures, Governments may find it more expedient to remove bottlenecks and biases that have been built up against the small industry sector. However, deregulation alone will not transform the evident dynamism of small entrepreneurs into a viable base for modernization. Appropriate policy reforms have to be accompanied by institutional reform and pro-active approaches. A truly viable small industry sector requires proper interface with other dynamic structures of the "modern" industrial sector: the productive network of large enterprises, formal banking systems and opportunities for entry into international markets.

7. UNIDO programmes, activities and instruments that address small- and medium-scale industries and the private sector in the developing countries have changed considerably in the last decade, especially where public enterprises have proven burdensome to Governments and servicing the external debt has eaten up foreign currency earnings and export incomes. UNIDO has responded to structural adjustment efforts of Governments to adapt themselves to global developments and the dynamics of world markets along with internally-oriented measures to simultaneously promote growth, reduce inflation and public sector deficits, and re-establish domestic stability. Finally, as a result of market-oriented changes in many countries, UNIDO has undertaken to strengthen its programme by privatization measures whereby advice and assistance are provided to help small units spin off from large public enterprises.

8. Adjustments in the UNIDO technical cooperation programme for small- and medium-scale industries evolved towards the end of the 1980s as a result of project reviews, in-depth evaluations and studies and consultations carried out with other multi- and bilateral agencies as well as with private consulting groups. This new orientation was also brought about by considering the changing requirements of small- and medium-scale industries clients in the 1990s and the need to mobilize in-house resources more effectively for a UNIDO-wide response.

9. The reoriented UNIDO strategy is thus directed towards providing a comprehensive package of services designed: (a) to promote commercially viable and growth-oriented small industrial enterprises and support small private entrepreneurs able to create and sustain jobs and incomes; (b) to improve access of small- and medium-scale industries to financing with particular regard to the special problems of disadvantaged target groups; (c) to strengthen institutional support mechanisms in cooperation with non-governmental entities and private sector groups; (d) to integrate the small- and medium-scale industries sector with the modern industrial sector through policy reform, technology promotion and development, and industrial partnership on a national or international basis.

10. The accumulated experience of UNIDO in the field of small- and medium-scale industry clearly shows that its development is most effective when efforts are integrated at three distinct levels: (a) policy; (b) institution; (c) enterprise. UNIDO assistance is identified at the critical entry level where the need is most pressing while the corresponding requirements and/or impact at the other levels are taken into account. A comprehensive plan of action is then drawn up to provide the services needed at one, two or all three levels of intervention, as appropriate.

11. Project inputs therefore assume a modular structure to ensure focus, customized responses and flexibility. These factors are all built into the design and implementation of UNIDO interventions.

12. To implement the UNIDO strategy for small- and medium-scale industries, a team approach involving various parts of the Organization has been adopted. This will help ensure sustainability and long-term prospects of the integrated modular programme approach including thematic or subsectoral analyses and country studies. The modules can draw from a variety of substantive programmes, consolidated into an integrated approach to ensure interdivisional complementarities.

II. DEVELOPMENT OBJECTIVE OF THE PROGRAMME

13. The development objective of the programme is to enhance the contribution of small and medium industries to industrialization and private sector initiatives within the framework of overall economic and social development goals.

III. PRIORITIES AND TARGET GROUPS OF THE PROGRAMME

14. The priorities of the programme for small- and medium-scale industries and the respective target groups addressed are given below:

Priority	Target groups
(a) Developing a sustainable environment conducive to promoting the growth of small and medium industrial enterprises by, inter alia, adopting and implementing policies and strategies to facilitate the access of small- and medium-scale industries to financial, technical and technological resources (policy level)	Legislative, planning, and executive governmental bodies in the developing countries
(b) Strengthening institutions and mechanisms to promote small- and medium-scale industries by providing effective support services, including access to financial, technical and technological resources, and facilitating inter-firm cooperation and complementation (institutional level)	Concerned public and private sector institutions, non-governmental organizations, associations and other cooperating groups of of industries
(c) Development of small- and medium-scale industries by enhancing entrepreneurship and facilitating access to information and resources (finance, marketing and technology) within an integrated programme approach and subsectoral systems (enterprise level)	Industrial enterprises in developing countries within selected subsectoral systems

15. In addition, more attention needs to be given to enhancing UNIDO advisory support functions for small- and medium-scale industries through: (a) mobilization of appropriate responses to changing requirements; (b) mobilization of financial resources; (c) access to sources of technology and know-how; (d) networking and outreach activities such as international exchange and industrial information services to small- and medium-scale industries.

16. To achieve those priorities, UNIDO will systematically monitor changes and analyse developments affecting the small- and medium-scale industries sector with a view to enhancing the capacity of the Organization in providing advice on policy options, guidelines and directives for the sustained modernization and growth of small- and medium-scale industries in developing countries. UNIDO will also carry out referral and clearing house functions and will undertake specific problem-solving research.

IV. PROGRAMME OBJECTIVES, OUTPUTS AND ACTIVITIES

17. The proposed programme comprises four subprogrammes which together address the priorities outlined in the paragraphs above.

Subprogramme I: Assistance in creating and sustaining an environment that is conducive to the growth of small- and medium-scale industries by adopting and implementing macro policies and programmes that optimize the contribution of small- and medium-scale industries to a balanced development of the industry sector. (Developing enabling environments)

Subprogramme II: Assistance in strengthening institutions and mechanisms for small- and medium-scale industries that provide services and complementary resources (finance, technology, information, management, market). (Developing demand-oriented institutional mechanisms)

Subprogramme III: Support to small- and medium-scale industries development at the enterprise level within a priority subsectoral system. (Integrated programme and subsectoral approach to small- and medium-scale industries development at the enterprise level)

Subprogramme IV: Research concerning the relation between small- and medium-scale industries and topical issues of social and economic development, and preparation of innovative concepts, programmes and projects to address priority needs identified such as poverty alleviation, globalization of industry and food security. (Contribution of small- and medium-scale industries to global development themes)

Subprogramme I: Developing enabling environments

I.1 Problem to be addressed

In most developing countries, macro policy frameworks have a built-in bias favouring large industries which could hamper the development of small- and medium-scale industries. Therefore, there is a need for effective integration of small- and medium-scale industry policies and strategies in overall development plans and for harmonizing macroeconomic, fiscal, financial and other policies with incentive measures for small- and medium-scale industries. Moreover, there is often a wide discrepancy between pronouncements of intent to cater for small- and medium-scale industries and implementing such strategies. Policy measures need to be backed by legislative instruments, financial schemes and appropriate mechanisms and institutions to facilitate the growth of small industries and increase the supply of capable entrepreneurs;

Policy reform may have to start with deregulatory measures - not only to remove those measures that are directly discriminatory to small- and medium-scale industries, but to arrest legislative flaws and burdensome procedures that are simply too complicated and not transparent enough for small- and medium-scale industries to benefit from them.

I.2 Objective

To support developing countries in adopting and implementing policies and programmes conducive to sustained growth of small- and medium-scale industrial enterprises.

I.3 Subprogramme focus

(a) Policy measures and legal instruments to promote small- and medium-scale industries and to

stimulate investment and private sector involvement in the small- and medium-scale industries sector;

(b) Financial schemes to improve the flow of resources to small- and medium-scale industries;

(c) Strengthening government capacity for sustained policy planning, implementation and monitoring.

I.4 Outputs

(a) Policy and strategy advice and technical cooperation in designing and introducing policy measures for:

(i) Improving the proactive role of Governments in promoting small- and medium-scale industries and rural industries in the private sector (fiscal, financial and other policy measures);

(ii) Ensuring that policies and strategies become operational and provide access to appropriate delivery mechanisms;

(iii) Enhancing entrepreneurial capacities of small- and medium-scale industries to perform effectively in dynamic and export-oriented markets;

(iv) Enhancing the role of private sector initiatives (e.g. chambers and associations of industries) in developing the small- and medium-scale industries sector;

(v) Industrial development options that contribute to alleviating poverty;

(b) Strategies and action plans to facilitate privatization, to foster entrepreneurship, to create business opportunities in the private sector and to sustain an investment climate conducive for development of small entrepreneurs;

(c) National programmes of action to develop an entrepreneurial culture in industry linked to educational and vocational training systems as well as addressing poverty-alleviation concerns and the integration of special human resource groups, particularly of women into the mainstream of industrial activities;

(d) Advisory projects for special loan schemes to small- and medium-scale industries, such as credit guarantees, equity sharing and venture capital, addressing specifically the constraints faced by women; lending schemes for small- and medium-scale industries in specific situations, such as for upgrading technology to reduce environmental hazard.

I.5 Activities

(a) Analysis of relevant policy, legal and regulatory framework, incentive systems directing economic activity at the country and regional levels;

(b) Consulting with Governments on setting priorities for industrial development within the general economic framework, with a view to deriving appropriate policy measures and programmes to promote and sustain the development of small- and medium-scale industries;

(c) Consulting with the private sector on constraints faced, government action desired in promoting small- and medium-scale industries and for stimulating investment and private sector initiatives;

(d) Preparing policy options and advising decision makers on merits and/or advantages and disadvantages of policy options and programmes recommended;

(e) Providing technical cooperation and technical support services in designing and implementing policies and programmes to foster small- and medium-scale industries.

Subprogramme II: Developing demand-oriented institutional mechanisms

II.1 Problem to be addressed

Developing countries confront a series of problems in making institutions and mechanisms more responsive towards supporting growth-oriented small- and medium-scale industries. While much depends on the macro-policy environment, there is also a need to re-evaluate the services being delivered in view of the increasing role to be played by the private sector in general, including non-governmental organizations (NGOs). There is also a need to adapt existing institutions to the changing requirements of the small- and medium-scale industries sector utilizing their full capacity and to translate policy measures into effectively functioning institutional support mechanisms for small- and medium-scale industries development;

Small- and medium-scale industries face particular problems in finding access to institutional finance because commercial and development banks find financing of small and rural industries too costly to administer and too risky. As at the policy level, much has to be done at the institutional level to introduce special loan schemes and to reorient operations of development and commercial banks. Special support mechanisms for small- and medium-scale industries need to be introduced to mobilize financial resources including incentives for joint ventures and other forms of foreign investment. In particular, institutional constraints to disadvantaged groups, such as women's access to finance, need to be identified and addressed;

Further, encouragement should be given particularly to private sector initiatives for support services to small- and medium-scale industries provided by, for example, chambers of commerce and industry, industry associations and NGOs.

II.2 Objective

To enhance the effectiveness of institutions to support small- and medium-scale industries development, and to establish mechanisms to provide incentives and services based on actual demands of the sector.

II.3 Subprogramme focus

(a) Institutions and infrastructure for small- and medium-scale industries; special support mechanisms and facilities that are small- and medium-scale industries specific and multi-sectoral; subcontracting exchanges, industrial estates and business incubators; financial institutions; quality control, standardization institutions;

(b) Subsectoral institutions with small- and medium-scale industry service functions.

II.4 Outputs

(a) Improved institutional infrastructures and mechanisms and extension services for small- and medium-scale industries, including:

(i) Small- and medium-scale industries training and extension service institutions, consulting groups;

(ii) Quality control, standardization and metrology institutions providing testing and certification marking;

(iii) Research and development (R and D) institutions and consulting groups more responsive to small- and medium-scale industries needs in acquisition and adaptation of suitable technologies, including those from abroad;

(iv) Industrial information services as well as advisory and training facilities specialized in the acquisition of technologies for the small- and medium-scale industries sector, including the Technological Information Exchange System (TIES) and Industrial and Technological Information Bank (INTIB) focal points;

(b) Operational model schemes for business and technology incubators to support new entrepreneurial ventures and start-ups; networks of small- and medium-scale industries around dynamic R and D institutions, including universities, to foster cooperation and commercialize R and D achievements;

(c) Special support mechanisms to promote entrepreneurship and to create jobs, especially for low-income groups and in depressed areas, including outreach activities and model schemes for the development of rural small-scale industries and entrepreneurship among rural and disadvantaged groups such as women;

(d) Guidelines and advisory support in developing industrial subcontracting exchanges and other complementation mechanisms, industrial estates and export processing zones (EPZs).

II.5 Activities

(a) Providing advisory support and technical cooperation to improve demand orientation and efficiency of institutions serving small- and medium-scale industries, including developing of models to improve infrastructures and extension services based on the analysis of demand and experience acquired through technical cooperation programmes;

(b) Designing and implementing pilot activities, programmes and projects for establishing technology and business incubators;

(c) Developing guidelines, preparing and disseminating manuals, providing advisory support on subcontracting exchanges, industrial complementation arrangements, industrial estates and EPZs;

(d) Adapting and specializing UNIDO industrial information services to respond to the demands of the small- and medium-scale industries sector;

(e) Providing technical support services to programmes and projects aimed at improving institutional infrastructures and extension services for small- and medium-scale industries;

(f) Providing technical support in capacity building (training of trainers).

Subprogramme III: Integrated programme and subsectoral approach to small- and medium-scale industries development at the enterprise level

III.1 Problem to be addressed

The development of the small- and medium-scale industries sector is generally handicapped because those enterprises lack adequate access to resources and/or information to utilize opportunities for growth. In addition to an unfavourable general policy environment and difficult access to finance, the major constraints confronting small- and medium-scale industries in bringing about effective improvements in productivity and quality are the lack of modern management techniques, insufficient knowledge of markets and marketing strategies, a low level of process technology and narrow product ranges, insufficient knowledge of technology options and strategies for technology acquisition;

However, at the enterprise level the numbers and nature of small- and medium-scale industries makes general coverage of subsectors and requirements very difficult. At this level UNIDO intends therefore to address the problems of small- and medium-scale industries within the context of focused integrated programmes. Each programme would incorporate analysis and activities in the areas of policy, technical cooperation, investment and financing within the industrial system concerned;

The programmes would be designed in a modular fashion but within an overall framework that would be developed based on a careful analysis of a given industrial subsector or system. In most or all such programmes small- and medium-scale industries would play an important role and separate components (projects) could deal with small- and medium-scale industries aspects in each major area of cooperation such as leather, fisheries or agricultural equipment;

When the focus is subsectoral, the imperative for close integration among the policy, institutional and enterprise levels becomes obvious. Subsectoral support institutions and technical associations, rather than UNIDO as such, must carry the major responsibility for technology transfer to and intervention at the enterprise level. Equally important are the benefits which

small- and medium-scale industries, within the framework of subsectoral activities, derive from stronger linkages to large-scale enterprises in closely related fields as well as to raw material suppliers and the industrial users of their outputs. Such linkages enhance the flow of technical and technological information and may lead to improvement in product quality and range, as well as in efficiency.

III.2 Objective

Full integration of small- and medium-scale industries aspects and components in integrated development programmes and subsectoral systems.

III.3 Subprogramme focus

Industrial priority subsectors or systems at the country level such as leather, fisheries, agricultural equipment, furniture and woodworking.

III.4 Outputs

Improved performance of small- and medium-scale industries in the subsector concerned. Depending on the subsector and country involved this may include:

(a) Improved financial and management capabilities of small- and medium-scale industries;

(b) New or improved technologies and production processes introduced in small- and medium-scale industries;

(c) Improved export performance of small- and medium-scale industries;

(d) New products successfully produced and marketed by small- and medium-scale industries;

(e) Improved energy efficiency and environmental performance of small- and medium-scale industries;

(f) Improved capability in effective technology selection-negotiation-acquisition of small- and medium-scale industries;

(g) Industrial partnerships between enterprises and subcontracting arrangements concluded resulting in transfer of technologies, business software, expanded markets and combined financial resources.

III.5 Activities

Depending on the subsector and outputs to be produced, this may include such activities as:

(a) Providing consultancy and extension services to industrial entrepreneurs in management and marketing in the identification, formulation and promotion of viable investment projects, including those which require foreign investment;

(b) Preparing industrial profiles for small- and medium-scale industries, taking into account their linkages within the subsector as well as with other subsectors and sectors;

(c) Training entrepreneurs and strengthening their ability to (i) appraise the economic, technological and market trends as well as environmental and energy issues, policies, regulations affecting demand and production; (ii) establish linkages with specialized R and D institutions, sources of know-how, licences, technologies, raw materials and global information networks;

(d) Providing advisory services and preparing a handbook on guidelines and model contracts for technology acquisition and negotiation;

(e) Training materials, manuals, guidelines, model schemes for entrepreneurship development, total quality management schemes, market analysis, marketing techniques and financial schemes.

Subprogramme IV: Small- and medium-scale industries contribution to global development themes

IV.1 Problem to be addressed

As UNIDO intensifies its small- and medium-scale industries programme, the need to keep constantly abreast of changing signals and significant trends impacting on the programme will increase. This will necessitate reviewing the approaches for appropriate linkages with other developmental issues emerging in technical cooperation, as well as with other thematic areas of UNIDO's medium-term plan and concerns of the international donor community;

UNIDO will have to remain open, alert and respond in concert to such critical issues as: how does the small- and medium-scale industries programme integrate inputs from science and technology on the one hand, and on the other, how does it serve the cause of alleviating poverty and enhancing the quality of life within a concept of achieving ecologically sustainable development, while learning from experience and constantly adapting approaches?

IV.2 Objective

To promote research and debate on topical industrial development issues, their implications on the small- and medium-scale industries sector, and elaboration of appropriate responses translated into practical programmes for innovative field-level implementation. (This would include prioritization of UNIDO services in the area of small- and medium-scale industries and guidance on specialization and concentration of UNIDO activities.)

IV.3 Subprogramme focus

UNIDO's own experience in industrial development (its "institutional memory") and information on world-wide experience on the state of the art will be analysed and transformed into relevant advice and technical cooperation, using organizational capacity and external resources.

IV.4 Outputs

(a) Surveys and evaluation studies on the relevance to industrial development of global themes debated in the United Nations and other international forums, or which are emerging owing to changes in the global socio-economic environment, and/or emphasis on new areas of attention. Themes for the biennium 1994-1995 include: (i) contribution of small- and medium-scale industries to poverty alleviation efforts;

(ii) industrial contribution to rural development: the role of small- and medium-scale industries;

(b) Position papers on a UNIDO response to the above issues for discussion and debate in appropriate forums for sharing of experiences, validation of approaches (in the form of Consultations, expert group meetings or working groups);

(c) Programme composition elaborated to reflect the envisaged UNIDO contribution, based on operational experiences and comparative advantages of the Organization.

IV.5 Activities

(a) Reviewing of UNIDO activities and research of activities of other organizations in relation to a given thematic area, study of literature, data and documentation;

(b) Preparing issue papers for circulation to interested and involved parties;

(c) Calling for meetings, selecting mix of participants, moderating presentations, discussion and debate; preparing resolutions, action plans and meeting reports;

(d) Translating resolutions and recommendations into programmes and designing of suitable approaches to achieve desired results.

V. IMPLEMENTATION ARRANGEMENTS

18. The implementation of the small- and medium-scale industries strategy of UNIDO is based firmly on a team approach, pursuing the overall policy to offer industrial clients the best possible benefits of the accumulated experience and know how of the Organization.

19. To that end an interdepartmental working group has been established and has begun its work. Current activities of the working group include an in-house analysis of technical cooperation activities undertaken by UNIDO in the field of small- and medium-scale industries in recent years. Analyses and findings will be presented to a forum of experts from donor and recipient countries scheduled for September 1993. Recommendations resulting from that encounter will be duly acknowledged and brought to the attention of the General Conference at its fifth session.

VI. ACTION REQUIRED OF THE BOARD

20. The Board may wish to recommend to the General Conference for approval the proposed framework for a UNIDO programme for small- and medium-scale industries as outlined in paragraphs 13 to 17 of the present document.